

DIRECT TESTIMONY AND EXHIBITS OF

ANTHONY M. SANDONATO

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2020-3-E

IN RE: ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS OF

DUKE ENERGY CAROLINAS, LLC DECREASING RESIDENTIAL AND

NON-RESIDENTIAL RATES

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Anthony Sandonato. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) in the Energy Operations Division as a Senior Regulatory Manager.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received my Bachelor of Science in Nuclear Engineering from North Carolina State University in 2011. Prior to my employment with ORS, I was employed as an analyst with a global professional, technology, and marketing service firm working with large investor-owned utilities on energy efficiency program design and implementation. I joined ORS in 2016, and, in October 2019, I was promoted to my current position in the Energy Operations Division.

Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?

A. Yes. I have previously testified before the Commission.

**THE OFFICE OF REGULATORY STAFF
1401 Main Street, Suite 900
Columbia, SC 29201**

Q. WHAT IS THE MISSION OF ORS?

A. ORS represents the public interest as defined by the South Carolina General Assembly as:

[T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to set forth ORS's recommendations resulting from our examination and review of Duke Energy Carolinas, LLC's ("Company") fuel expenses during the review period. The review period includes the actual data for June 2019 through May 2020 ("Actual Period"), estimated data for June 2020 through September 2020 ("Estimated Period") and forecasted data for October 2020 through September 2021 ("Forecasted Period").

Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes. The review to which I testify was performed by me or under my supervision.

Q. WHAT DID ORS'S REVIEW OF THE COMPANY'S FUEL EXPENSES INVOLVE?

A. ORS examined various fuel related documents as part of our review. These documents address the Company's fuel, environmental, and purchased power expenses for the Actual, Estimated, and Forecasted Periods. In preparation for this proceeding, ORS analyzed the Company's monthly fuel reports. ORS examined the Company's contracts for nuclear fuel, coal, natural gas, fuel oil, transportation, and environmental reagents. ORS also evaluated the Company's policies and procedures for fuel procurement. All information was reviewed with reference to the Company's existing Adjustment for Fuel,

Variable Environmental, Avoided Capacity, S.C. Code Ann. §58-27-865 (the “Fuel Clause Statute”), and the Company’s approved Distributed Energy Resource Program (“DERP”), S.C. Code Ann. § 58-39-140.

Q. WHAT ADDITIONAL STEPS WERE TAKEN IN ORS’S REVIEW OF THE COMPANY’S PROPOSAL?

A. ORS met remotely with Company personnel from various departments to discuss and review fossil and nuclear fuel procurement, fuel transportation, environmental compliance costs and procedures, forecasting, and general Company policies and procedures pertaining to fuel procurement. In addition, ORS monitored the nuclear, coal, natural gas, transportation and renewable industries through industry and governmental publications.

Q. DID ORS REVIEW THE COMPANY’S ENVIRONMENTAL COMPLIANCE RELATED COSTS?

A. Yes. ORS reviewed the Company’s environmental compliance related costs including allowances for nitrogen oxide (“NO_x”) and sulfur dioxide (“SO₂”) emissions, reagents (i.e., limestone, ammonia, urea, etc.), and chemicals used in the reduction of these emissions. The use of these chemicals and reagents reduces the Company’s NO_x and SO₂ emissions, and the costs associated with the use of these substances are included in the Company’s Adjustment for Fuel, Variable Environmental, Avoided Capacity, and DERP costs tariff as provided by the Fuel Clause Statute.

Q. DID ORS REVIEW THE ACCURACY OF THE COMPANY’S FORECAST?

A. Yes. As shown in Exhibit AMS-1, the Company’s megawatt-hour (“MWh”) sales were 4.60% lower than expected during the Actual Period. Exhibit AMS-2 shows, on

average, the fuel costs for the Actual Period were 7.22% lower than the projected monthly fuel costs. Exhibit AMS-3 shows the fuel expenses for the Actual Period were 10.92% lower than the Company's projections for the Actual Period.

Q. PLEASE DISCUSS ORS'S REVIEW OF THE COMPANY'S FORECASTED SALES AND COSTS FOR THE ESTIMATED AND FORECASTED PERIODS.

A. ORS reviewed the Company's projected sales and analyzed them with regards to the projections from its last fuel proceeding in Docket No. 2019-3-E and the actual sales from the Actual Period. ORS found the Company's sales projections to be reasonable and in line with historical sales data.

ORS reviewed the Company's forecasted costs for nuclear fuel, coal, natural gas, fuel oil, transportation, and environmental reagents for the Estimated and Forecasted Periods. ORS compared the monthly projected costs to historical projections from Docket No. 2019-3-E, actual data from the Actual Period, and commodity prices from numerous industry publications. ORS found the Company's forecasted costs to be reasonable.

Q. DID ORS DETERMINE THE PRIMARY DRIVERS OF THE COMPANY'S REQUEST FOR A RATE CHANGE IN THIS PROCEEDING?

A. Yes. Exhibit AMS-4 shows the cumulative ending period balances of base fuel, environmental, capacity, and DERP avoided costs beginning in May 2011. As of May 2020, the Company had a cumulative base fuel under-recovery balance of \$8,256,488, a cumulative environmental over-recovery balance of (\$1,044,760), a cumulative capacity related over-recovery balance of (\$1,748,011), and a cumulative DERP avoided costs over-recovery balance of (\$117,601). This is reflected in ORS witness Briseno's Audit Exhibit ADB-5. As shown on ORS witness Briseno's Audit Exhibit ADB-5, ORS projects the

Company to have a cumulative base fuel over-recovery balance of (\$18,869,976), a cumulative environmental over-recovery balance of (\$1,249,554), a cumulative capacity related under-recovery balance of \$408,492, and a cumulative DERP avoided costs over-recovery balance of (\$121,071) by September 2020. The Company's request for a decrease is driven primarily by the projected fuel cost over-recovery as of September 30, 2020 rather than the under-collection of fuel costs reflected in existing rates. An additional driver is the decreasing commodity prices in the Forecasted Period as well as reduced sales and expenses.

Q. WHAT CHANGES DOES THE COMPANY REQUEST TO ITS CURRENTLY APPROVED FACTORS?

A. The Company requests the Commission approve a decrease to its currently approved Base Fuel Component ("Base Fuel Component") for the Forecasted Period. Additionally, the Company requests to update its Variable Environmental Component ("Environmental Component"), Capacity Related Cost Component ("Capacity Related Component"), and DERP Avoided Cost Component ("DERP Avoided Cost Component") to reflect the Company's forecasted expenses and allocation of these expenses to each class of customer based on its contribution to the Company's 2019 peak, which occurred on July 16, 2019.

Q. ARE THERE ANY ADDITIONAL FACTORS IN THIS DOCKET THAT WILL IMPACT CUSTOMERS' BILLS?

A. Yes. The Company included proposed rates related to its DERP incremental expenses. ORS witness Lawyer addresses the Company's incremental expenses to be recovered as a fixed charge ("DERP Charge") on customer bills.

Q. DOES ORS RECOMMEND ANY ADJUSTMENTS TO THE BASE FUEL COSTS PROPOSED BY THE COMPANY?

A. No. Exhibit AMS-5 is a summary of the proposed fuel factor components for each customer class. If approved by the Commission, the rates proposed in this proceeding, including the recommended DERP Charge addressed by ORS witness Lawyer, would decrease the average monthly bill for a residential customer on Rate RS using 1,000 kilowatt-hours ("kWh") from \$122.14 to approximately \$115.37, a net decrease of \$6.77 or 5.54%.

Q. WILL YOU UPDATE YOUR DIRECT TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources, becomes available.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Office of Regulatory Staff
Comparison of South Carolina Estimated to Actual Energy Sales
Duke Energy Carolinas, LLC
Docket No. 2020-3-E

EXHIBIT AMS-1

		2019								2020					
		June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Actual Period Total	
[1]	Actual Sales (MWh)	1,864,838	2,017,508	2,093,112	2,031,503	1,756,139	1,615,646	1,709,657	1,700,159	1,762,483	1,616,663	1,466,711	1,373,867	21,008,286	
[2]	Estimated Sales (MWh)	1,755,268	1,981,557	2,137,310	2,039,840	1,717,070	1,628,905	1,758,566	1,911,997	1,915,488	1,835,240	1,702,914	1,636,575	22,020,730	
[3]	Difference [1]-[2]	109,570	35,951	-44,198	-8,337	39,069	-13,259	-48,909	-211,838	-153,005	-218,577	-236,203	-262,708	-1,012,444	
[4]	Percent Difference [3]/[2]	6.24%	1.81%	-2.07%	-0.41%	2.28%	-0.81%	-2.78%	-11.08%	-7.99%	-11.91%	-13.87%	-16.05%	-4.60%	

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EXHIBIT AMS-2

Comparison of South Carolina Estimated to Actual Fuel Cost

Duke Energy Carolinas, LLC

Docket No. 2020-3-E

2019															2020				
	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May		Actual Period Average					
[1]	Actual Experience (¢/kWh)	1.7518	2.0719	1.8782	1.9058	1.6587	1.9530	1.6262	1.6231	1.3305	1.2897	1.3001	1.5394	1.6607					
[2]	Original Projection (¢/kWh)	1.9891	2.0416	1.8386	1.6353	1.5073	1.8825	1.8311	1.7705	1.7191	1.7195	1.6339	1.9102	1.7899					
[3]	Amount in Base (¢/kWh)	1.8227	1.8227	1.8227	1.8227	2.1166	2.1166	2.1166	2.1166	2.1166	2.1166	2.1166	2.1166	2.0186					
[4]	Variance from Actual [1-2]/[2]	-11.93%	1.48%	2.15%	16.54%	10.04%	3.75%	-11.19%	-8.33%	-22.60%	-25.00%	-20.43%	-19.41%	-7.22%					

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Comparison of South Carolina Estimated to Actual Base Fuel Costs
 Duke Energy Carolinas, LLC
Docket No. 2020-3-E

EXHIBIT AMS-3

		2019							2020					
		June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Actual Period Total
[1]	Actual Experience (Total \$)	\$32,310,995	\$41,441,519	\$38,954,702	\$38,355,514	\$28,780,312	\$31,216,173	\$27,461,067	\$27,248,384	\$23,100,954	\$20,500,168	\$18,715,578	\$20,795,222	\$348,880,588
[2]	Original Projection (Total \$)	\$34,486,651	\$40,041,123	\$38,923,011	\$33,012,511	\$25,757,292	\$30,573,138	\$32,129,544	\$33,749,358	\$32,812,908	\$31,420,445	\$27,651,192	\$31,090,157	\$391,647,330
[3]	Difference [1]-[2]	-\$2,175,656	\$1,400,396	\$31,691	\$5,343,003	\$3,023,020	\$643,035	-\$4,668,477	-\$6,500,974	-\$9,711,954	-\$10,920,277	-\$8,935,614	-\$10,294,935	-\$42,766,742
[4]	Percent Difference [3]/[2]	-6.31%	3.50%	0.08%	16.18%	11.74%	2.10%	-14.53%	-19.26%	-29.60%	-34.76%	-32.32%	-33.11%	-10.92%

Office of Regulatory Staff
History of Cumulative Recovery Accounts
Duke Energy Carolinas, LLC
Docket No. 2020-3-E

EXHIBIT AMS-4

Period Ending	Base Fuel Costs (Over)/Under	Environmental Costs (Over)/Under	Capacity Costs (Over)/Under	DERP Avoided Costs (Over)/Under
May-11	\$ 528,767	\$ (3,595,468)	N/A	N/A
May-12	\$ (41,792,888)	\$ (7,198,018)	N/A	N/A
May-13	\$ (25,476,878)	\$ (6,084,377)	N/A	N/A
May-14	\$ 35,958,217	\$ (1,788,254)	N/A	N/A
May-15	\$ 30,787,463	\$ (1,634,322)	\$ 1,048,969	N/A
May-16	\$ (35,017,408)	\$ (4,759,509)	\$ 1,875,605	\$ (263,642)
May-17	\$ 7,670,353	\$ (2,985,690)	\$ 792,575	\$ (235,096)
May-18	\$ 64,403,063	\$ (1,461,868)	\$ (910,631)	\$ (24,301)
May-19	\$ 86,217,228	\$ (965,535)	\$ (5,379,540)	\$ (1,472)
May-20	\$ 8,256,488	\$ (1,044,760)	\$ (1,748,011)	\$ (117,601)

Office of Regulatory Staff
Proposed Fuel Factors
Duke Energy Carolinas, LLC
Docket No. 2020-3-E

EXHIBIT AMS-5

	DEC Proposed Fuel Factors (¢/kWh)				
Customer Class	Base Fuel Cost Component	Environmental Cost Component	Capacity Related Cost Component	DERP Avoided Cost Component	Total Fuel Factor
Residential	1.5025	0.0207	0.0836	0.0034	1.6102
General Service / Lighting	1.5025	0.0278	0.0910	0.0033	1.6246
Industrial	1.5025	0.0204	0.0657	0.0024	1.5910